

A281.9
AG8A

**THE ROLE OF
LOCAL GOVERNMENT
IN
ECONOMIC
DEVELOPMENT
OF RURAL AREAS**

Research Needs and Opportunities

**AGRICULTURAL
ECONOMIC
REPORT
NO. 94**

THE PROBLEM

Despite the apparent significance of local government in the process of economic growth, we have very little concrete information about the contribution made to the economy by governmental and quasi-governmental activities. There seems nevertheless to be wide agreement that this contribution is smaller than it ought to be. The volume of critical comment over a period of many years suggests, moreover, that the present organization and structure of government, especially in rural areas, impede attainment of optimum service levels. Also, there is ample evidence that rural governments often do not have sufficient funds to support these levels. Finally, they fall short in terms of non-economic criteria of "good government."

An adequate characterization of the problem requires explicit recognition that there are some ideological constraints to policy alternatives. Two seem especially relevant. One is the deep commitment in our governmental system to the ideal of grassroots democracy, or keeping government close to the people. In practical terms, this means that solutions that might otherwise appear optimal may be rejected because they involve too great a departure from this ideal. Decentralization, as a goal valued for itself and not merely as a convenient administrative arrangement for achieving other goals, may involve compromising other objectives, such as efficiency and uniformity of service levels, to achieve the desired balance.

A second constraint delimits policy alternatives in another way. This is the apparent commitment of Federal policy to seek solutions to the problem of underutilization of human resources in rural areas through expanding economic opportunities there, rather than to accept the adjustment process that occurs with outmigration. Policies that might not be supported on purely economic grounds (for example, investment in local government facilities) may become feasible in light of this constraint.

OVERALL OBJECTIVES OF A RESEARCH PROGRAM

The problem as I have stated it centers in the supposed inadequacy public and quasi-public 2/ services and facilities to meet the economic development objectives and the human needs of rural communities. This view of the problem leads me to suggest research with the following specific objectives:

- (1) To develop economic criteria for appraising the marginal social contribution of governmental activities, working toward an empirical basis for judging, in total and for each major function, how much expenditure is enough.

2/ Quasi-public services and facilities, as used here, are those that, while not supplied by government, yield substantial social (as opposed to private) benefits. Examples are UGF-type activities, private schools, privately owned parks, VFW baseball fields, rescue squads, and so on.

- (2) To appraise the adequacy of public services in various kinds of rural communities, and to identify the factors that explain variations among communities in the adequacy of public services.
- (3) To identify ways in which existing forms of local government limit attainment of adequate levels of public services and to indicate institutional adjustments needed to overcome these limits.
- (4) To evaluate existing financial arrangements of local governments in terms of adequacy, economic effects, and equity, and to indicate possible improvements.

Objective (1) is central to the program of research visualized here. A problem that pervades all public-sector economics is how to evaluate the marginal contribution, or the marginal public benefit, of government expenditure. For many years, scholars grappled with this question with little success. In general, their efforts led to little more than the observation that the valuation of public services is subjective, and manifests itself only in the democratically expressed tax and expenditure preferences of the majority. In recent years, however, progress has been made in developing criteria for evaluating benefits of some public programs--river basin projects and education and health programs, for example. The objective here would be to extend this kind of analysis to other functions, and to place the evaluation criteria in a local or regional context.

This will not be easy to accomplish; indeed, it may be impossible to develop measures that are at all precise. Nevertheless, a fundamental contribution would be made even if nothing more were accomplished than to work out the conceptual dimensions of the analysis. In my opinion, the importance of this research is such that at least part of the resources available for this program ought to be devoted to it.

Research directed toward the second objective involves application of these criteria to the appraisal of the adequacy of public expenditures and programs. The degree of realization of this objective will of course be determined largely by the success achieved with objective (1). I believe, however, that some fruitful work can be done toward appraising public services without awaiting results of the first phase. A few rough criteria are already at hand; even analysis of variations in raw expenditure levels can perhaps provide some valuable insights into variations in service levels and the causes thereof.

Research directed toward the third and fourth objectives deals more directly with institutional problems and maladjustments. While work toward these objectives will be more solidly based if substantial progress is made on objectives (1) and (2), work on objectives (3) and (4) does not necessarily presuppose such progress. Pragmatic criteria are available for evaluating local government and fiscal institutions. I see no reason why these criteria should not be used, if their pragmatic nature is specified.

THE CONCEPT OF SOCIAL OVERHEAD

The term "social overhead" is sometimes used in connection with expenditures for public and quasi-public services and facilities. Its usefulness and limitations in connection with the proposed program of research are discussed below.

To some people, social overhead means public facilities--government-owned, reproducible, immovable capital such as public buildings, roads, dams, hospitals, and playgrounds. This apparently is also the meaning that some economists give to the term infrastructure.

In a variant of this meaning, some kinds of privately owned immovable capital are included, such as railroads, pipelines, and industrial and public utility plants. This concept would logically require inclusion of all immovable capital. However, why only immovable capital is included is not clear. Movable capital with a narrow range of uses--a railroad locomotive, for example--would seem to have the same overhead characteristics as does the railroad track.

A second, somewhat different concept of social overhead includes all government expenditures, current expenses as well as capital purchases. This idea apparently derives from J. M. Clark, ^{3/} who emphasized the fact that the benefits of public expenditures accrue to society at large and cannot be traced to separate individuals any more than the costs of a firm's personnel office can be allocated to the various product lines.

A variant of this concept recognizes that, like governmental activities, many quasi-governmental agencies produce benefits that diffuse throughout society, and include expenditures of these groups in the social overhead. United Givers Fund agencies would be included in this group.

Which of these concepts is most useful for organizing our thinking and our research effort in the areas outlined above? And is the term social overhead the proper term to convey the meaning of that concept?

The use of the term social overhead to mean cost of public facilities seems to carry some useful implications. It reminds us that this form of capital is highly specific as to use and location. Once committed, it is a "sunk" cost--little or no direct cost is associated with its use or disuse. Social overhead in this sense is highly relevant to the social cost of population movement. Public policy regarding migration must not overlook the differences in costs of supplying public services in alternative locations. These costs may be very high in already crowded locations, and almost nil where excess capacity exists. It is important to focus attention on the marginal, or differential, costs and benefits of public services, rather than on the corresponding totals.

^{3/} Studies in the Economics of Overhead Costs. Univ. Chicago Press, Chicago, 1938.

Beyond the group of capital items termed government facilities, is there a definable collection of assets to which the term social overhead may usefully be applied? I think there is not. Investment in any form of capital involves a commitment that is to a degree irrevocable, the degree varying directly with the degree to which one views the economy as an aggregate. It is essential that this fact be recognized, but nothing of value is gained by using the term social overhead in so broad a sense.

Is there then any logic in drawing a line between government-financed "social" capital and privately financed investment? I think there is, by virtue of the fact that nongovernmental investment decisions require direct assumption of costs by private firms or individuals, who therefore have some incentive to consider the costs and returns of alternatives. In our system, we assume that these decisions can safely be decentralized to the private sector without undue sacrifice to the public interest. Governmental decisions, however, impose involuntary costs on taxpayers. The wisdom of public investment decisions depends upon the ability of the public and of the representatives of the public to perceive and judge social costs and benefits. This is the rationale for giving special attention to the conceptualization and calculation of social costs and benefits. It is also the reason why it is logical and useful to distinguish between government and nongovernment investment in capital facilities in delimiting the area of research.

The concept of social overhead as government expenditure on all kinds of public services and facilities also has some usefulness. The use of the term in this sense serves to emphasize the social nature of the benefits provided by government, and the impossibility of attributing them to specific individuals or firms. It underscores the necessity of taking account of widely diffused benefits in appraising the contribution of governmental activity to economic growth and human welfare. The term overhead suggests also the important fact that public expenditures are not likely to decline in proportion to loss in population--that they are largely fixed costs.

Having noted the ways in which these concepts of governmental activity may be useful, however, I do not think it desirable to introduce a new term to stress them. I see no unambiguous meaning that can be given the term social overhead other than meanings for which there are already perfectly good terms--that is, government facilities, or government expenditures.

A contrary view is expressed in Dillman's paper, "Making the Concept of Social Overhead Capital More Meaningful." ^{4/} Dillman is concerned, as I am, about the confusion arising from lack of a commonly agreed-on meaning for the term "social overhead capital," but where I come to the conclusion that the problem is best solved by avoiding use of the term, Dillman struggles to fashion some sort of clear-cut meaning for the term so as to salvage and rehabilitate it. His effort is valiant but in my opinion unsuccessful. The fault lies, I think, in the fact that Dillman (along with most other users of the term social overhead capital) apparently has no analytical framework in which the concept plays a part. Thus, his attempt becomes an exercise in defining and classifying, and an end in itself.

^{4/} Paper prepared for delivery before the American Farm Economic Association Annual Meeting, Okla. State Univ., Aug. 22-25, 1965

GOVERNMENT AS CREATOR OF SOCIAL CAPITAL AND SUPPLIER OF CONSUMER SERVICES

Government, as the instrument of the community will, diverts resources from private uses to the production of public goods and services. In this theoretical view, the flow of public expenditures is regulated through the political process, which is relied on to produce at least a rough balance between marginal social costs and marginal social benefits.

In a world in which all the costs and benefits of government activity accrued to the members of that community, the balancing of costs and benefits would be relatively simple. Each community would establish its expenditures at the preferred level, taking account of the values placed on public versus private goods and services. The level of public services would be expected to vary among communities because of differences in preferences and in the total resources (real income) available. But these variations would be purely of local concern, having only the same significance as variations in individuals' patterns and levels of consumption.

The fact, however, that society regards wide variations in the level of public services, especially on the low side, as a social problem, is an indication that there are spillover costs and benefits that make community expenditure decisions of concern to the entire State or Nation. To deal with this problem we have evolved a multilevel structure of government, accompanied by a complex multilevel fiscal system in which expenditure decisions involve balancing the benefits and costs for many different publics. The balancing process becomes vastly more complicated than in a single self-contained community. Correspondingly, the need for information on the nature, extent, and incidence of the costs and benefits of public activity becomes greater, if there is to be any system or rationality to the process. ^{5/} Some basis for judging the results of government expenditure in relation to its costs is thus central to the program of research outlined here.

It may be helpful in working toward a framework for evaluating the contribution of local government services and facilities to think of government as rendering three kinds of services. First, government contributes directly through some of its facilities to the stimulation of private economic development in the area such as water supply systems, airports, and artificial lakes. This stimulus comes about because of the complementarity of public and private capital, the increased quantity of the former enhancing the productivity of the latter. For example, the Appalachia program has stressed the significance of roads to economic developments. Part of the job of evaluating the contribution of local government involves estimating the additional production attributable to such investments.

^{5/} Although the problem is here stated in terms of viewing economic efficiency as the overriding concern of public policy, the same kind of calculation of the benefits and costs of alternative courses of action would be relevant to any public policy, whatever its objective.

A second result of governmental activity is the creation of human capital through upgrading the productivity and earning capacity of human resources. The educational function is the clearest example, but public health programs, vocational rehabilitation, hospitals, and other activities yield benefits of this sort.

The third form of contribution consists of the direct satisfaction of human wants through consumer services. Education, to the extent that it serves nonutilitarian aims, falls in this category, as does provision of parks, sidewalks, and water supply (at least to residences), and some of the welfare programs.

The above trichotomy might facilitate the evaluation of public program benefits, with each program studied for the purpose of identifying its contribution under each of these headings, and then with some appraisal made of the benefits.

My belief that some steps can be taken in this direction is based partly on a cursory examination of recent literature on analysis of costs and benefits associated with public programs. ^{6/} Also, much progress has been made in the field of operations research in handling nonparametric variables in complex decision-making models. The techniques developed may well be applicable in some measure to State and local government cost-benefit research.

The research outlined above, while it has an important practical objective, may be classed as basic research in the sense that it would be applicable to a wide variety of problems. It would be a high-risk investment that might pay off only over a long period, or not at all. While it is highly desirable that some of the available research resources be devoted to research of this kind, it is equally desirable that part of the effort be devoted to research with short-term objectives and with assured results. A variety of topics related to local government finance offer this opportunity.

FINANCIAL ASPECTS OF LOCAL GOVERNMENT ACTIVITY

A striking characteristic of government finance is the wide variation in levels of expenditure among local communities even within a single State. In Ohio, for example, local governments in the highest spending county spent almost twice as much per capita in 1962 as those in the lowest spending county. Other more heterogeneous States show an even greater range.

A fundamental question for research is: Why do communities vary so widely in their expenditures? Much attention has been given in recent years to the variations among States in the overall level of public expenditure, in total and for specific functions. Little study has been given, however, to the equally challenging and potentially rewarding task of analyzing variations among communities within individual States.

^{6/} A partial listing of relevant titles is given in the appendix.

Analysis-of-variance techniques are suitable for this problem. Abundant fiscal data are available, as are data on a wide variety of economic and social variables. I would propose to analyze variations in the per capita expenditures of local government in terms of such variables as the age composition of the population (especially the proportion over 65 and under 18); the variety of public services offered; the educational level of the population; the density of population; the rate of population growth or decline; perhaps some variable (maybe a dummy) representing various forms of local government organization; the level of per capita income (or proportion of families whose income is below \$2,000 or \$3,000); the property tax base per capita; the composition of the tax base (in particular, the proportion consisting of property other than residential); the local tax structure (for example, the proportion of locally raised revenue obtained from the property tax); and some variable representing the State aid structure (for example, the proportion of State-aid revenues distributed under an equalizing formula).

This analysis might be further enriched by incorporating other sociological variables--percentage of population with a rural-farm background, for example, or degree of political awareness.

The initial forays into this problem might best be directed at analyzing variations in expenditures for individual functions. Significant explanatory variables identified at this stage could later be incorporated into analysis of variations in total expenditure.

Within this framework relationships might be found that would explain much of the observed variation in local government expenditures. One of the results would be to increase our ability to predict expenditure changes that will result from various economic, demographic, or governmental changes.

A related line of research might focus more directly on the variations among communities in the extent to which they utilize the fiscal resources available to them. The dependent variable here would be the difference between actual effective tax rate (defined as property taxes per \$100 of full value or as the ratio of property taxes to personal income) and some standard rates, such as the statewide average. Independent variables would be the same kinds of socioeconomic variables suggested above. The objective would be to identify characteristics associated with varying degrees of utilization of the existing tax base.

Much can be learned about the forces influencing local spending and taxing policies by taking a close look at individual communities that show unusually high or unusually low taxes or expenditures. Effort along this line should identify the characteristics that seem to make for high or low spending patterns. It should thus produce understanding of variables that might be incorporated into research involving large-scale amassing of data.

Detailed examination of the experience of selected low-income communities might also produce insights into the nature and origins of fiscal difficulties that often beset rural local government. The aim of such studies should be to define more precisely the kinds of fiscal difficulties a low-income community encounters and the form they take (inability to undertake, capital improvement programs, inability to finance repairs or maintenance, inability to fill positions, etc.), the causes (tax limits, tax delinquency or inadequate

collection, high-cost operation in connection with specific programs, etc.), and possible remedies (administrative improvements, reorganization, consolidation, etc.).

This area of research has been opened up in a study by William Hedlund a report of which has not yet been published. Hedlund examined closely the fiscal situation of county government in 10 low-income counties of southern Iowa and northern Missouri, and found their problems to be related to (1) mandatory salary schedules, (2) rigid tax limits, (3) heavy local responsibilities in connection with welfare programs, and (4) a State aid system that penalized efforts to raise the level of property assessments.

Studies of this kind are not to be regarded as rigorous, highly scientific research; they contribute little to fundamental scientific knowledge. They can lead, however, to new insights into the workings and problems of local government, suggesting new hypotheses for testing in other studies. Moreover, they have a more immediate payoff in directing attention to problems, analyzing them, and indicating alternative courses of action.

An aspect of government finance that has received little or no attention concerns the use of credit by small rural governmental units. The sources of credit, its cost and availability, the uses to which it is put, and the terms attached to it are extremely important in connection with public capital formation and its contribution to area economic development. The significance of information on this subject is enhanced by the fact that the Federal Government is becoming increasingly involved in supplying credit to local communities.

Closely related is the matter of financing capital outlay, involving such questions as how capital expenditures are financed in rural areas, and how the pattern varies with kind of investment, regional location of community, size of community, size and composition of the tax base, and cost or terms of borrowing.

Rural governments do little borrowing, which probably reflects the fact that they also undertake little capital outlay. No doubt the explanation is partly that rural governments feel little need to expand or modernize capital facilities--school plant, roads, water and sewer lines--especially in the face of declining populations. But lack of access to credit may also play a part. Research would be appropriate on the purposes for which rural governments borrow, the sources of financing, the rates and terms, the alternatives available, the nature of State supervision and restrictions, and the possibilities for institutional changes to improve access of rural local governments to private capital markets.

We know that farmers have traditionally been wary of debt, often with good reason. It would not be surprising to find that rural governments reflect the attitudes of their constituents on this score, perhaps in accentuated form. An effort to ascertain the attitudes of rural people toward use of borrowed funds for local public investment would appear to be worthwhile. Perhaps we need an Extension or Farmers Home Administration program designed to educate rural government leaders on the opportunities that are opened up through wise use of credit, patterned somewhat on past efforts aimed at individual farmers.

State aid constitutes a large fraction of the revenues of rural governments. State aid policies and patterns in distribution of aid to local subdivisions consequently have a direct influence on the level and composition of rural government expenditures. It is largely through State aid that States exert their influence toward standardizing levels of service and financial

burdens. Very little information is available on a national scale on the structure of State aid programs or their effects on local finance.

A comprehensive study of State aid systems in the United States is, I think, too large an undertaking to form an appropriate part of the research program under discussion. Studies in a few States, however, would indicate the way different kinds of aid systems affect the finances of rural communities. Information already gathered in the Economic Research Service would provide a basis for selecting States that exemplify different aid patterns.

The immediate aim of this research should be to describe the existing situation in rural communities--i.e., the share of local revenue derived from State aid, the functions aided, the conditions attached to the grants, the variations among communities of different sizes and kinds in the grants received, and the features of grant programs that produce this result. An attempt might then be made to set forth criteria for evaluating a State aid system and to apply these criteria to various kinds of systems.

LOCAL GOVERNMENT IN RURAL AREAS

Students of government have long recognized that the structure of local government in most rural areas of the United States is in need of fundamental reorganization. Topmost on the list of needed reforms is wholesale consolidation of small, inefficient units. Governmental consolidation received a strong impetus during the depression, when local government in many places verged on collapse. The momentum developed then has brought many changes. The township government has virtually disappeared from the local scene; where it remains it exercises few functions. School district reorganization also has proceeded apace, with the number of districts cut from about 127,000 in 1932 to 35,000 in 1962.

Counties, however, the chief instrument of rural government and the prime object of criticism, have hardly been touched by the reorganization movement. Their number, and to a large extent their functions, remain almost the same as in 1932. Emphasis has gradually shifted away from fundamental reorganization of county government, with a drastic reduction in number of counties, to a variety of less basic reforms, including intercounty cooperation and consolidation of county offices. Today, under the impact of the rural development program, circumstances appear again to be turning favorably to fundamental reorganization and consolidation of county government. Stirrings are reported in various States that may foreshadow action to authorize or even require counties to consolidate. This topic therefore may no longer be of purely academic interest. At the same time, interest in less drastic reforms is likely to grow also.

As I see it, three kinds of research are needed to go along with this growing interest and activity. Most immediately useful is research to keep abreast of new organizational developments, reporting and evaluating them so that people in other communities can know that innovation is taking place and can profit by the experience of others. In particular, research could focus on the success of various organizational devices in implementing the new Federal programs and in creating conditions favorable to economic development. The absence of widely disseminated information on new governmental arrangements is a major barrier to the evolutionary process by which institutions that are better adapted to the rural environment may emerge.

A second type of research consists of designing and proposing new ideas for governmental modifications in rural areas, and working out the implications of these proposals. Karl Fox has set a good example of this type of research with his proposals to reorganize local government around functional economic areas. ^{7/} We make a mistake, I think, if we try to distinguish too sharply between the role of the social scientist and that of the social inventor, and to limit our research to what we think is appropriate for the former role.

A third possible area involves what might be labeled basic research in local government. My thoughts on this topic are highly tentative. I suggest, however, that an intriguing line of research might lie in an effort to develop a behavioral theory of rural local government. Rural sociologists have made some progress in closely related studies, as have political scientists in studies of metropolitan areas and of various branches of the Federal Government. I commend this as a matter worth exploring.

Special problems in providing adequate and effective local government face those rural areas with sparse, and more often than not, declining, population. It is difficult to provide a widely dispersed population with roads, schools, police and fire protection, and the like. Costs per capita are high and service levels are likely to be low. The task facing these areas is to increase efficiency in the performance of governmental functions, in order to make possible some combination of cost reduction and service improvement.

It is worth noting that county consolidation or other changes designed to enlarge the service area would not help this problem except to the extent that, by contributing to strengthening local government, they might produce innovations in administration. The basic need here is to develop administrative techniques that are specially adapted to a pattern of sparse settlement. Great advances appear to have been made in developing hardware to meet needs of local governments, including the small rural ones. I suspect that less progress has been made in public administration. Some attention might well be given to finding out what techniques, special equipment, and facilities have been developed by the various professional groups (educators, public health officials, for example) for use in sparsely settled areas.

STATE AND LOCAL GOVERNMENT AND ECONOMIC DEVELOPMENT

A fundamental question concerning the relation of government to economic development, and one of the most difficult to answer, is what contribution is made by government services and facilities to economic development in a particular region. The complexity of the process of economic growth, in the first place, makes it very difficult to isolate the influence of any one form of investment. Beyond this is the still more formidable problem of evaluating public services in the context of regional economic growth. A variety of conceptual problems arise, of which I will mention only three.

One is the problem of whether--and how--one should, in evaluating the contribution of government to increased production in one region, take account of the displacement of economic activity in other regions. From the viewpoint of

^{7/} Fox, Karl A. The Study of Interactions Between Agriculture and the Non-farm Economy: Local, Regional, and National. Jour. Farm Econ., Feb. 1962.

regional economics the effect on other economies is irrelevant, but from the viewpoint of national policy this effect cannot be ignored. Perhaps the solution lies in attempting a comprehensive evaluation of benefits, supplemented by an allocation of these benefits between the particular region and the rest of the Nation.

Closely related is the problem of evaluating the contribution to labor efficiency of education, health services, etc., when some of the labor migrates to other regions. The additional human capital produced by this public expenditure certainly contributes to national economic growth, but from the viewpoint of the region the investment is lost.

The complex interaction of government expenditures and economic growth also requires study. Public investment decisions require an appraisal of the long-term prospects of the region for economic growth. On the other hand, long-term growth prospects depend in no small way on the investment decisions of government. We thus are faced with a set of interdependent relationships that should challenge builders of economic models as well as policymakers.

These are the more fundamental questions on which theorists may chew. There are some practical approaches, however, that can occupy the earthbound researcher in the meantime.

One area in which research would be both feasible and useful is that of the significance of public services as a factor in business decisions on industrial location. Much attention has been given over the years to the possible influence of taxes on industrial location. The results have generally tended to show that taxes are not a prime determinant. Little or no study seems to have been given to a related proposition--that the level of public services is a significant factor in attracting an industry to an area or community. Some valuable results might be obtained from even such an unsophisticated approach as use of a questionnaire--carefully drawn, to be sure--designed to obtain a ranking of the various factors influencing choice of location. The questionnaire would be submitted to a sample of business executives, including some representing firms that had recently made decisions about location, and others from firms that had not.

Such research, besides throwing light on the general question of the role of local government in industrial location, would also indicate the kinds of services that are rated highly by different kinds of industries. It would thus have immediate use for communities seeking to enlarge their economic base.

The interaction between the public sector of the local economy and economic development in the private sector is a two-way street; not only do taxes and public services influence economic growth, but the process of economic growth and development has an impact on the services demanded of government, and also on the tax base. Intelligent planning of the rural development effort requires an appreciation of the nature and significance of these impacts. For example, a new industrial plant in a rural area may give rise to need for additional public expenditure on roads, water and sewerage, schools, police and fire protection, and the like. Recreational industries also generate a need for services commonly provided by government. This dimension of the economic development process I suspect is seldom fully appreciated. While it would

certainly be misleading--indeed, misconstructive of the purpose of government--to suggest that a community should welcome or turn away industry on the basis of a comparison of the additional tax revenue with the additional governmental cost, it would be unwise for a community to ignore the impact of industry on the cost of government. Many communities, in their enthusiasm over the new jobs and additional tax base that industry brings, may do just that.

One approach to this problem is that followed, in case studies now being done for the Economic Research Service by the University of Kentucky and the University of Missouri, in which individual communities are being studied intensively to ascertain what has been added by new industry to requirements for local services, and how local government has responded to these new demands.

Another approach would use input-output matrices to analyze the relationship between output of specific industries and service demands placed on local governments. This approach would yield at least rough estimates of what a region or community might anticipate in the way of added demand in conjunction with new industry. The same method might be used to estimate additional public revenues that might result.

RELATIONSHIPS BETWEEN FEDERAL, STATE, AND LOCAL GOVERNMENTS

The recent enactment of a wide variety of Federal programs, designed broadly to improve the quality of American life, carries with it far-reaching implications for the relationships between Federal, State, and local Governments. The following is an attempt to explore a few of these implications, with the objective of identifying researchable questions and possible approaches. The emphasis is on problems of rural areas and on research activities that lie within the purview of the Department of Agriculture.

The Problem of Federal Control

The fundamental intergovernmental issue raised by the new Federal programs is the age-old one of local autonomy versus central control. The history of our Federal system is one of continuous balancing of the required degree of national uniformity in governmental performance and the permissible degree of local variation. The newly enacted Federal programs, in asserting the national interest in activities that hitherto have been subject mainly or exclusively to State and local control, alter the balance in favor of national uniformity.

Mere facts and analysis cannot resolve an issue as emotion-charged as that of Federal control versus State rights. The aim of the social scientist, nevertheless, should be to seek out available facts, thereby narrowing the scope of debate. There is an opportunity for such a contribution in a study designed to appraise how much substance there is to the old notion that Federal support of an activity involves undue loss of local control.

Certainly some controls go along with Federal support. Not all of these, however, are inimical to local self-direction. For example, administrative regulations designed to prevent fraudulent misuse of funds involve no sacrifice by any legitimate local interest. A requirement, however, that money be spent

for project A rather than project B might run counter to local preferences. In the latter case, there may be a genuine inconsistency between national and local interests. The purpose of research on this topic should be to identify the kind of controls that appear to be contrary to local interest, to appraise the importance of these controls in the eyes of local people, and to indicate, where possible, ways of resolving the conflict without sacrificing the objectives of the Federal program.

Federal aid does not work exclusively in the direction of narrowing the scope for local initiative. A program bringing Federal funds to a local government will impose constraints upon it, but will at the same time serve to widen its scope of action by giving it more funds to work with. This greater freedom of action to some extent offsets the necessary restrictions. Federal aid, in other words, instead of sapping the vitality of local government by robbing it of essential power over its own affairs, may breathe new life into local government by making it possible to do more of the things that need to be done. Research on the influence of new Federal programs on local autonomy ought not to overlook this dimension of the subject.

These questions are important, but not easily subjected to research. I suggest intensive studies in a few local communities in which new Federally sponsored programs have recently been initiated. (Recency of involvement is important to identify the pinch of Federal control; time probably numbs the pain.) Each study would be matched by a control community not receiving Federal assistance. An interview questionnaire administered to local officials and other knowledgeable people in the community might succeed in identifying the kinds of Federal pressures local people are aware of, how strongly they feel them, and how the administration of the program is affected. In addition, much informal interviewing would be required, as well as study of news accounts and of local, State, and Federal records. A careful study of this kind would perhaps contribute something concrete to our understanding of just what is sacrificed in the way of local control through acceptance of Federal money.

It is possible that some of the adverse effects of Federal involvement are so long run in nature or so disguised that they are not apparent in the short run to local residents. The proposed study would seek to identify only recognized effects.

Local Finances and Federal Aid

The impact of Federal aid on finances of local governments is a second topic for research. The influence of the Federal Government at the local level is presumably reflected to some extent in the amount of local revenue obtained, directly or indirectly, from Federal sources. As far as I am aware, such information is not now available. The Census Bureau reports intergovernmental revenue of local governments in total, and also reports revenue from the State. The difference represents Federal aid. But the amount of State aid that consists of a pass-through of Federal funds is not identified. I suspect that this component is of growing importance, and is a significant indicator of Federal participation in local governmental functions. Conceivably, such a distinction might be introduced with the 1967 Census

of Governments. More probably, an effort to distinguish direct from indirect Federal aid will have to rely on State data and on data generated by the Federal agencies involved in grant programs.

I suggest an exploratory effort, centered in a few illustrative States, to break down local government revenue into that derived (a) directly from the Federal Government, (b) indirectly from the Federal Government through the State, (c) from the State Government, and (d) from local sources. Such data might be constructed for a series of years in detail by program, by type of governmental unit, and perhaps for individual local units.

Analysis of this body of data should throw light on the changing extent of Federal support of local government, the kinds of activities and governmental units that receive Federal support, and the changing composition of local revenues. Two specific hypotheses occur to me: (a) an increase of x dollars in Federal support for, let us say, vocational education, leads to an increase of something less than x dollars in actual expenditure of the operational level for that purpose; (b) increased local expenditure for programs that are directly aided by Federal programs is associated with reduced expenditure for those that are not.

Changes in Local Government

The effects of Federal programs on the structure and organization of local government are clearly of high importance. Even partial assumption by the Federal Government of financial and administrative responsibility for activities long regarded as essentially local will inevitably bring great changes in the formal organization of local government as well as in the less formalized processes by which it works.

These changes may work toward improving local government; the need to organize effectively to carry out new programs at the local level may well speed up the lagging process of local government reorganization and erase some of the more anachronistic features of rural local government. But it is also possible that too little attention will be given to the effects of specific changes on the total local government framework, especially if the changes are dictated exclusively by the immediate requirements of specific programs. For example, the most expeditious method of getting a multicounty program underway may be to organize a single-purpose special district. However, the proliferation of such districts may have serious adverse effects on the general-purpose units of local government. Preoccupation with prompt action, and an effort to interfere as little as possible with the existing framework of local government, may harm rather than help the long-term goal of establishing a rational, efficient, and effective system.

In light of impending changes and the uncertainties surrounding their possible effects, several responsibilities fall to the researcher. One, which was emphasized earlier, is to contribute constructively to the process of social innovation by calling attention to existing, or possibly new, governmental devices that might assist local governments in dealing with their problems. A related responsibility is that of identifying, reporting on, and evaluating innovative experience of local governments, wherever it is found.

Study of various arrangements for coordinated action by local jurisdictions in an area seems particularly appropriate. Some research has already been done in the Community Facilities Branch, ERS, on interlocal cooperative arrangements. Analysis of other approaches to the problem of designing governmental instrumentalities to meet rural development needs--such as special districts, special authorities, and regional offices of State agencies--is needed to point up the advantages and perils in various devices.

Another responsibility of researchers is that of working as closely as possible with action agencies in setting up their programs for working with local governments. This function is not usually regarded as research proper, but it involves utilizing knowledge of past research where it can do the most good--in the councils where decisions are actually made. Perhaps the research influence can best be exerted by a process of educating program administrators, making them more sensitive to implications of their actions. Or perhaps people steeped in research in local government and intergovernmental relations might be brought directly into the decision-making process. However it is done, findings of past research, tentative though they may be, must somehow be brought to bear on the crucial decisions that are going to be made, or else the research function will have demonstrated its impotence.

Effects of Federal Programs on State Governments

Finally, the development of new direct ties between the Federal Government and local governments will unquestionably have significant effects on State Government. As Federal programs and funds come to bypass the States, the role and influence of the States will almost surely tend to diminish. State agencies might be expected to lose some of their power to set standards, design programs, and make policy, and along with it some of their status and political power in the Federal system might be lost. The longrun implications cannot be dismissed as trivial.

These prospects call for a broad program of research designed to produce a careful, continuing appraisal of the changing role of State Government in the web of governmental activity. Some objective indicators of the role of State Government might be devised, such as number of employees (or proportion of the Federal-State-local total), or expenditures of local government under State-run programs as compared with those under programs that may be classed as Federally directed. Much of this research would of necessity be qualitative rather than quantitative. This is an important area for research, but one for political scientists rather than agricultural economists or sociologists.

A related role for agricultural economic research is the continuing review and appraisal of the effects of Federal programs on the structure of local government and on Federal-State-local interrelationships. This review would be primarily for the benefit of the agencies administering the programs.

Neither of the above-mentioned forms of research activity, however, will contribute to the mainstream of professional thought and understanding on intergovernmental relations. Somewhere there needs to be done some detached, critical, and above all, published, research on the way expanded Federal

participation in various functions is reshaping local government and the structure of Federal-State-local relationships. Some research of this kind will inevitably be done without Federal sponsorship, as individual researchers and the various foundations come to recognize the significance of recent developments. Some, too, might be done by the Advisory Commission on Intergovernmental Relations.

In addition, it seems to me that it would be a good idea for the Federal Government or some agency thereof to sponsor a series of studies by eminent scholars on the effects of the whole complex of new Federal programs on the structure and functioning of our Federal system. These studies should, I think, be thought of as research projects, and funded accordingly. Above all, they should be quite clearly free of any predisposition to any set of conclusions. They might be patterned on the studies commissioned by the Joint Economic Committee of the Congress. In some respects the USDA study several years ago of the County Committee System offers a model.

HOUSING AND CREDIT IN RURAL AREAS

Little has been said in the foregoing about the needs for housing and credit in the economic development of rural areas. Fairly obvious is the value of information on the quality of housing in low-income rural areas as compared with urban levels or some minimum "health and decency" standard. Analysis of the causes of variation might be more valuable. Is substandard housing in rural areas a reflection of average age of dwellings, of poor initial construction, of inadequate maintenance, of lack of municipal services such as water and sewerage? Perhaps local building and zoning codes are related to quality of housing. Research might be useful on the kinds of building restrictions in force in rural areas, the consequences of weak or nonexistent controls, and the obstacles to adoption of building and zoning codes. Problems of substandard construction and inadequate zoning are particularly apparent in the rural-urban fringe but probably deserve attention throughout rural areas.

Apart from fairly obvious topics such as the relative availability and cost of various kinds of credit in rural areas as compared with urban, research may be needed on the possibilities of developing credit facilities to finance intangible forms of investment such as retraining, additional education, and relocation of labor.

The role of nongovernmental organizations in economic development may also appear to have been slighted in the above discussion. This is a reflection of my conviction that research on it is likely to be less productive and more difficult than research on the topics I have emphasized. I would not deny the potential value of deeper insights into the sociology of economic development or the economic role of quasi-public bodies such as the local Grange. However, the chief instrument of public policy is government, and whatever is to be done to implement a policy of regional economic development will be done largely through government. Consequently, first priority should be given to research designed to improve our understanding of the functioning, financing, and economic contribution of local government.

OUTLINE OF PROPOSED RESEARCH

- A. Basic research, designed to develop and apply criteria for appraising the social contribution of local governmental services and facilities.
- B. Studies of government finance as related to economic development in rural areas.
 - 1. Quantitative analysis of variations in local expenditures and taxes.
 - 2. Intensive studies of particular communities.
 - 3. Studies of local government capital formation, borrowing, and debt.
 - 4. Analyses of State aid structures.
- C. Studies of the organization and functioning of rural government, in relation to economic development.
 - 1. Basic long-term research to develop a theory of local government.
 - 2. Reporting and evaluating innovations in rural local government.
 - 3. Research designed to produce new ideas for government structuring.
 - 4. Research on special problems in administering government functions in areas of sparse population.
 - 5. Research on public services as a factor affecting locational decisions.
 - 6. Research on effects of economic development on government costs and services.

APPENDIX

Some Recent Contributions to the Theory and Measurement of Benefits and Costs of Governmental Activities

- Dorfman, Robert, ed. Proceedings of the Brookings Institution Conference on Benefit-Cost Analysis, 1965.
- Hirshleifer, Jack, DeHaven, James C. and Milliman, Jerome W. Water Supply: Economics, Technology, and Policy, Chapters V, VI and VII, Univ. Chicago Press, 1960.
- Kershaw, J. A., and McKean, R. N. Systems Analysis and Education. The Rand Corporation, October 1959. An effort to assess the possibilities of quantitative measure to evaluate educational systems (primary and secondary). Concludes that "the potential payoffs ... appear to be high enough to warrant incurring both the risk and the expense."
- Klarman, Herbert E. Hospital Care in New York City, Columbia Univ. Press, 1963.
- Kuhn, Tillo E. Public Enterprise Economics and Transport Problems, Univ. Calif. Press, 1962. Deals with economics of roads and other forms of public transportation. Chapter II, Evaluation of Action, looks particularly helpful.
- Litchfield, Nathaniel, Cost-Benefit Analysis in Urban Redevelopment, Berkeley, 1962.
- McKean, Roland N. Efficiency in Government Through Systems Analysis, (Publications in Operations Research No. 3), New York, Wiley & Sons, 1958. A general discussion of concepts and data for evaluating government programs, centered on water resource problems but not limited to them. Parts II and III look particularly relevant. Also contains a useful bibliography.
- Mushkin, Selma J., ed. Economics of Higher Education, U.S. Department of Health, Education, and Welfare, Washington, 1962. A collection of essays. That by Richard S. Eckhaus entitled "Education and Economic Growth" is especially valuable.
- Mushkin, Selma J., ed. Health as an Investment, October 1962 Supplement to the Journal of Political Economy, p. 156. See also the other papers in this supplement.
- Proceedings of the Industrial Relations Research Assn., Dec. 1964, pp. 172-214. See especially the paper by John S. MacDonald.
- Weisbrod, Burton A. The Nature and Measurement of the Economic Benefits of Improvements, Washington Univ., St. Louis, 1958.
- Weisbrod, Burton A. Spillover of Public Education Costs and Benefits: (Part One - Benefits). A pathbreaking effort to quantify benefits from education and to place the analysis in a local context. Valuable especially for conceptual contributions. U.S. Office of Education, Aug. 1963.

Weisbrod, Burton A. Economics of Public Health, Philadelphia, Univ. Pa. Press, 1960. Although designed to quantify economic loss from various diseases, it offers useful ideas on how to evaluate benefit of government programs in public health field as well as generally. Chapter VI, "Methods of and Prospects for Quantification," seems especially relevant.